

TRS Service Credit Purchase

Background

This proposal is an outgrowth of the Age 65 study. While it was not formally included within the Age 65 Retirement Options studied by the full committee, it was acknowledged by the Age 65 subgroup, the Executive Committee and the full Committee to be appropriate for the SCPP's 2005 legislative package in order to bring consistency with the PERS and SERS Plans 2/3. In those plans, members who qualify for early retirement or alternate early retirement can make a one-time purchase of up to five years of additional service credit in order to offset the required benefit reductions for early retirement.

Committee Activity

Presentations:

September 7, 2004 - Full Committee
October 19, 2004 - Full Committee
November 9, 2004 - Executive Committee

Subgroup Activity:

October 14, 2004 - Subgroup meeting
November 5, 2004 - Subgroup Meeting

Proposal:

December 7, 2004 - Full Committee

Recommendation to Legislature

Provide eligible members of the TRS Plans 2 and 3 with an opportunity, at the time of retirement, to make a one-time purchase of up to five years of additional service credit in order to offset the required benefit reductions for early retirement.

Staff Contact

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Select Committee on Pension Policy

TRS Service Credit Purchase

(November 22, 2004)

Issue

The issue before the full SCPP is whether to propose legislation to provide eligible members of the TRS Plans 2 and 3 the opportunity, at the time of retirement, to make a one-time purchase of up to five years of additional service credit in order to offset the required benefit reductions for early retirement.

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Members Impacted

This bill impacts members of the TRS Plans 2/3.

Any future retiree from TRS Plans 2 and 3 could potentially be impacted by this bill. As of our latest actuarial valuation, there were 54,900 active members in TRS Plans 2 and 3.

Current Situation

This option is not currently available for members of TRS. Eligible members of TRS Plans 2/3, however, could purchase an equivalent annuity through a private sector annuity provider. The cost of an annuity will vary from provider to provider and will vary based on the particular annuity product offered. Members of PERS and SERS will have the option to purchase this kind of service credit as of July 1, 2006.

Proposal

This proposal would provide eligible members of the TRS Plans 2 and 3 the opportunity, at the time of retirement, to make a one-time purchase of up to five years of service of additional service credit. The service credit purchased would not need to correspond to any actual service within a Washington or any other retirement system, hence the term “air time.” The service credit can be used to increase early and alternate early retirement benefits by offsetting the required reductions for early retirement.

Eligible members would include only members who are eligible for early retirement or alternate early retirement under the provisions of TRS. The service credit purchased under this bill would not be membership service and could not be used to qualify for retirement. The member would pay the full actuarial cost of the service credit with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan at the time of retirement.

Policy Analysis

This proposal creates consistency with PERS and SERS 2/3 with respect to “air time” and promotes the legislative policy that the retirement systems of the state shall provide similar benefits wherever possible. See RCW 41.50.005(1). The five-year limit on “air time” is required by federal law.

It should be noted that TRS members have another service credit option that PERS and SERS members do not have: the ability to elect to apply service credit earned in an out-of-state retirement system that covers teachers in public schools solely for the purpose of determining the time at which the member may retire. See RCW 41.32.065. TRS members are not required to pay for the out-of-state service credit, as it is not used to increase the member’s benefits.

It should also be noted that the SCPP is considering another proposal that would allow members of TRS Plans 2/3 to purchase up to seven years of service credit earned as a teacher in a public school in another state or with the federal government. This latter form of service credit would be treated as membership service for all purposes. This means that it can be used to qualify for retirement and to increase benefits.

Procedural Posture/Executive Committee Recommendation

As the result of the September 7, 2004 briefing of the SCPP on the issue of Age 65 Retirement, an “age 65 subgroup” was formed to make specific recommendations to the SCPP. Last month, the subgroup recommended to the Executive Committee that the SCPP consider legislation to provide TRS 2/3 members with the opportunity to purchase up to five years of “air time” in order to offset reductions for early retirement. On November 9, 2004, the Executive Committee directed staff to prepare a bill draft and fiscal note on the TRS “air time” proposal.

Bill (Draft)

The bill draft for this proposal is attached.

Fiscal Note (Draft)

The draft fiscal note for this proposal is attached.

1 AN ACT Relating to permitting members of the teachers' retirement
2 system plan 2 and plan 3 who qualify for early retirement or alternate
3 early retirement to make a one-time purchase of additional service
4 credit; adding new sections to chapter 41.32 RCW; and providing an
5 effective date.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 NEW SECTION. **Sec. 1.** A new section is added to chapter 41.32 RCW
8 under the subchapter heading "plan 2" to read as follows:

9 (1) A member eligible to retire under RCW 41.32.765 (2) or (3) may,
10 at the time of filing a written application for retirement with the
11 department, apply to the department to make a one-time purchase of up
12 to five years of additional service credit.

13 (2) To purchase additional service credit under this section, a
14 member shall pay the actuarial equivalent value of the resulting
15 increase in the member's benefit.

16 (3) Subject to rules adopted by the department, a member purchasing
17 additional service credit under this section may pay all or part of the
18 cost with a lump sum payment, eligible rollover, direct rollover, or
19 trustee-to-trustee transfer from an eligible retirement plan. The

1 department shall adopt rules to ensure that all lump sum payments,
2 rollovers, and transfers comply with the requirements of the internal
3 revenue code and regulations adopted by the internal revenue service.
4 The rules adopted by the department may condition the acceptance of a
5 rollover or transfer from another plan on the receipt of information
6 necessary to enable the department to determine the eligibility of any
7 transferred funds for tax-free rollover treatment or other treatment
8 under federal income tax law.

9 (4) Additional service credit purchased under this section is not
10 membership service, and may not be used to qualify a member for
11 retirement under RCW 41.32.765.

12 NEW SECTION. **Sec. 2.** A new section is added to chapter 41.32 RCW
13 under the subchapter heading "plan 3" to read as follows:

14 (1) A member eligible to retire under RCW 41.32.875 (2) or (3) may,
15 at the time of filing a written application for retirement with the
16 department, apply to the department to make a one-time purchase of up
17 to five years of additional service credit.

18 (2) To purchase additional service credit under this section, a
19 member shall pay the actuarial equivalent value of the resulting
20 increase in the member's benefit.

21 (3) Subject to rules adopted by the department, a member purchasing
22 additional service credit under this section may pay all or part of the
23 cost with a lump sum payment, eligible rollover, direct rollover, or
24 trustee-to-trustee transfer from an eligible retirement plan. The
25 department shall adopt rules to ensure that all lump sum payments,
26 rollovers, and transfers comply with the requirements of the internal
27 revenue code and regulations adopted by the internal revenue service.
28 The rules adopted by the department may condition the acceptance of a
29 rollover or transfer from another plan on the receipt of information
30 necessary to enable the department to determine the eligibility of any
31 transferred funds for tax-free rollover treatment or other treatment
32 under federal income tax law.

33 (4) Additional service credit purchased under this section is not
34 membership service, and may not be used to qualify for retirement under
35 RCW 41.32.875.

1 NEW SECTION. **Sec. 3.** This act takes effect July 1, 2006.

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DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:

CODE: DATE:

BILL NUMBER:

Office of the State Actuary

035 11/18/2004

Z-0202.1/Z-0203.1

SUMMARY OF BILL:

This bill impacts the Teachers' Retirement System (TRS) Plans 2 and 3 by allowing eligible members, at the time of retirement, to purchase up to five years of additional service credit. The service credit can be used to help offset the benefit reductions for early retirement.

Eligible members would include only members who are eligible for early retirement under the provisions of the system. Additional service credit purchased under this bill does not constitute membership service and, therefore, could not be used to qualify for retirement.

A member purchasing additional service credit under this bill would pay the full actuarial cost of the service credit with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan (at the time of retirement).

Effective Date: 7/1/2006

CURRENT SITUATION:

This option is not currently available through the Department of Retirement Systems. Current members, however, could purchase an equivalent annuity through a private sector annuity provider. The cost of an annuity will vary from provider to provider and will vary based on the particular annuity product offered.

MEMBERS IMPACTED:

Any future retiree from TRS Plans 2 and 3 could potentially be impacted by this bill. As of our latest actuarial valuation, there were 54,900 active members in TRS Plans 2 and 3.

FISCAL IMPACT:

None.

We have assumed that this benefit proposal will not change future retirement behavior in the affected retirement systems since existing members currently have access to private-sector annuity providers that currently provide similar annuity products. We have also assumed that the full actuarial cost will include the cost of any adverse selection that may develop due to mortality experience and/or interest rate timing by the member.